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SUBJECT: LITHUANIA'S 2005 DRAFT BUDGET SHORTS MOD

REF: A. VILNIUS 889

1B. VILNIUS 320

Classified By: POL/ECON OFFICER TREVOR BOYD
FOR REASONS 1.4 (B) AND (D)

11. (C) Summary. The draft 2005 GOL budget before the Parliament fulfills Lithuania's NATO commitment to allocate two percent of GDP to defense spending, but falls far short of providing that two percent to the military. The budget increases the share of defense money that will go to other Ministries for non-military defense-related expenditures. Military defense spending in 2005 will decrease nearly 14 percent from 2004 levels. The GOL downplayed the shortfall. While it is likely that Lithuania will be able to maintain the scope of its international commitments in Iraq, Afghanistan and Kosovo, funding levels may affect Lithuania's ability to meet its NATO force transformation commitments. We will educate new members of Parliament and Government about Lithuania's NATO commitments and encourage support for Lithuania's ongoing military transformation goals. End Summary.

12. (U) Parliament's National Security and Defense Committee approved on October 18 a draft budget allocating 1.86 percent of Lithuania's projected 2005 GDP for defense spending. Approximately 40 percent of this sum, however, will not go to the Ministry of Defense (MOD) directly, but will be reallocated to cover defense-related expenses of other Ministries, such as the Ministry of Interior and the State Border Protection Service. The draft budget allocates roughly 750 million Litas (approximately USD 277 million) directly to the MOD, a decrease of approximately 120 million Litas (USD 44 million or 14 percent) from 2004. In March, the leadership of eleven political parties signed an agreement committing the two percent GDP funding level for defense through 2008 (reftel B). To meet the two percent commitment, the Ministry of Finance included the approximately 230 million Litas (USD 85 million) the EU allocated for the implementation of the Schengen visa regime into its defense budget calculations.

13. (C) MOD Under Secretary for Resource Planning and Finance Jokubas Leleika, noting that Defense Minister Linas Linkevicius's had argued for additional funds, told us that the MOD is disappointed at what he called a "political decision" to divert funds to secondary defense organizations. Algirdas Gricius, who sits on Parliament's National Security and Defense Committee, told us that the Committee was comfortable with the allocation since Lithuanian political parties, like those in many other NATO capitals, define "defense spending" broadly to include all Ministries working on defense-related matters.

14. (C) A Lithuanian MOD defense consultant acknowledged that MOD's plans for military transformation presumed an annual one percent increase for military spending. While he believes that the current budget allocations of defense funds for non-military line items will not affect Lithuania's short term (2006-2008) defense planning goals, he worried that, if this trend of diverting defense funds from the MOD continues, Lithuania's longer-term goals, including maintaining a NATO-capable battalion, would be at risk.

15. (C) Comment. The MOD had hoped to decrease the percentage of defense funds allocated for non-military expenditures, but apparently lost this battle for now. Though the MOD assures us that international operations will not be affected, it is difficult to see how the MOD can meet its long-term NATO force goal commitments with these budget cuts. We will focus substantial efforts on educating new members of Parliament and Government about Lithuania's contributions and commitments to NATO and encourage support for Lithuania's ongoing military transformation

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